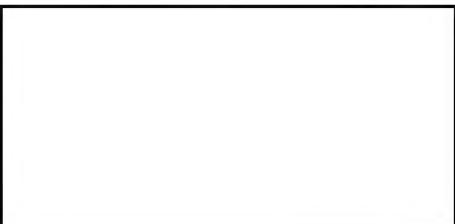


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**1. GUATEMALAN PRESIDENT CASTILLO
ARMAS ASSASSINATED**

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[Redacted]

The assassination of Guatemalan President Carlos Castillo Armas has transferred control of the government to politicians considerably to the right of

the late president's middle-of-the-road political position. Luis Arturo Gonzalez, Castillo's constitutional successor, has assumed at least nominal control of the government. The country is under tight martial law. There is no indication that the murder was part of a coordinated plan to seize control of the government.

Guatemalan police claim to have proof that the assassin, who requested assignment to the president's guard three months ago, was a Communist.

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[Redacted] He may, however, have undertaken the assassination on his own initiative. The underground Communist Party has opposed assassination or revolution as political weapons until after it has built up mass support.

Gonzalez, who has no personal political following, is to serve in the presidency only until a popularly elected president can take his place. The constitution calls for an election within four months. The powerful administration political machine, the National Democratic Movement, has reportedly already decided that its candidate is to be Colonel Francisco Oliva, present minister of defense. Oliva is believed to command the respect and loyalty of most army officers.

The government will be unstable during the next several months as various opponents of Castillo, including leftists and Communists both in exile and inside the country, attempt to exploit his death in an effort to seize power. Some disident army officers may plot against the course adopted by the

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top army leadership. Instability will probably be heightened in the long run if the government adopts extensive repressive tactics and thus gives moderates common cause with leftists. The army will remain the ultimate locus of political power and may be a moderating influence on the more rightist politicians. However, should President Gonzalez deviate from the constitution or prove too weak to govern the country, the army may peacefully set up a junta under Minister of Defense Oliva.

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2. DISAGREEMENT LOOMING BETWEEN ARCHBISHOP MAKARIOS AND GREEK GOVERNMENT

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[redacted] a disagreement is looming between Cypriot leader Archbishop Makarios and the Greek government, [redacted]

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Makarios is insisting that the Greek delegation to the United Nations stand firm on the self-determination and atrocity issues, with no retreat or behind-the-scenes arrangements "as in previous years."

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Comment

In preparing the resubmission of the Cyprus issue to the UN, the Greek government had favored a mild request for clarification of last year's UN decision, but in early July gave in to Makarios' insistence that the appeal be based on the Cypriot demand for self-determination and condemnation of British atrocities.

Archbishop Makarios received Soviet Ambassador Sergeyev at his Athens home on 26 July at which time Sergeyev assured Makarios that the USSR would always be on the side of the Cypriot people in their demand for self-determination and that the Soviet delegation at the United Nations will support the Greek appeal.

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3. USSR REPORTED SEEKING TALKS WITH ITALY ON
PEACE TREATY OBLIGATIONS

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Comment Against the \$100,000,000 reparations owed by Italy to the USSR under the 1946 peace treaty, the Soviet Union took as a down payment Italian assets in the Balkans, which it valued at \$25,000,000. The Italians have consistently maintained that these assets exceeded \$100,000,000 in value and refused to make any payments in manufactured goods as provided in the treaty. In February 1952, Italy notified Moscow that it considered itself relieved of further reparations obligations because of Soviet opposition to Italian membership in the UN. Soviet support of Italy's successful 1955 application elicited no change in this position.

The Soviet Union has long sought negotiations with Italy leading to closer relations and high-level Italian visits to Moscow, and it may believe that raising peace treaty issues will force Italy into talks. Moscow would probably be ready to renounce its reparations claims in return for some Italian concessions, particularly if it thought such a gesture would improve prospects for the Italian Communist Party in the national elections which may be held this fall.

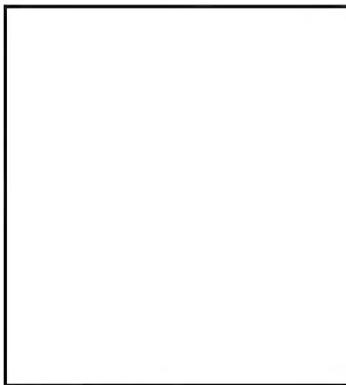
The principal issue which Italy would probably raise in talks is the return of some 50,000 Italian war prisoners captured on the Soviet front in World War II.

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4. LEFTISTS OUSTED FROM GOVERNMENT OF INDIAN-HELD KASHMIR

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Popular unrest in Indian-held Kashmir and dissension within the ruling National Conference Party led by Premier Bakshi apparently have prompted the Indian government to conduct a major house-cleaning in that state, despite the prospect of UN Security Council discussions in August or September. Pakistani propaganda may be expected to stress instability in Kashmir, the unrepresentative nature of Bakshi's government, and the failure of Nehru's policies.

The reshuffle of Bakshi's cabinet, announced on 26 July, ousted strong pro-Communist members who had survived the reorganization of 1953, when India fired Premier Sheikh Abdullah for "independent" tendencies. The new moves presumably reflect New Delhi's feeling that stricter control is necessary. Two of the six new ministers are from Jammu Province, where opposition to the Bakshi government is strongest, and their appointment probably represents an effort to appease that opposition. A seventh minister is to be named later.

As a result of the cabinet reshuffle, the Communist Party may emerge for the first time as a cohesive political unit under publicly identifiable leaders such as Ghulam Sadiq--an ousted minister--who has long feuded with Bakshi. Though the party probably would act "constitutionally" so as not to embarrass the parent Communist Party in India, its emergence as an overt political force would create additional problems for New Delhi.

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5. PANAMANIAN GOVERNMENT MAY TAKE COURT ACTION AGAINST DISSIDENT VICE PRESIDENT

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[Redacted]

First Vice President Diaz, who failed in an attempt to turn a 24 July opposition rally into a mass demand for resignation of President de la Guardia and thus succeed legally to the presidency

himself, has been subpoenaed to explain press accounts that he tried to incite armed revolt at the rally. No specific charges have been filed but the attorney general reportedly has ordered an investigation to determine whether there is basis for trying Diaz. According to Panamanian legal sources, the vice president is subject to ordinary processes of law, and, if found guilty, could be divested of office by either the Supreme Court or the National Assembly. Under a law against publicly insulting the president, Diaz could be prosecuted for having called De la Guardia "a bum."

Legal action to remove the disgruntled Diaz probably would not put an end to coalition opposition moves against De la Guardia, but it would remove from the political scene the most active threat to the stability of his administration. The positive support given the administration by the powerful National Guard has strengthened De la Guardia's position and he probably feels he can safely get rid of his rival.

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